



Director of
Central
Intelligence

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National Intelligence Daily

Saturday
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Contents

	Lebanon: Talks on Syrian Move Nearing Conclusion	1
	USSR: Ligachev Transfer Rumored	2
b (1) b (3)	[REDACTED]	3
b1 b3	[REDACTED]	4
b (1) b (3)	[REDACTED]	5
	Notes	
b (1) b (3)	[REDACTED]	6
b1 b3	[REDACTED]	6
	Africa: OAU Summit	7
b (1) b (3)	[REDACTED]	7
	Sri Lanka: Ruling Party Under Attack From Far Left	8
b (1) b (3)	[REDACTED]	8
	In Brief	9
	Special Analyses	
	[REDACTED]	10
	Poland: Economic Effects of Strikes	12
	USSR: Machine Building, Perestroika's Sputtering Engine	14

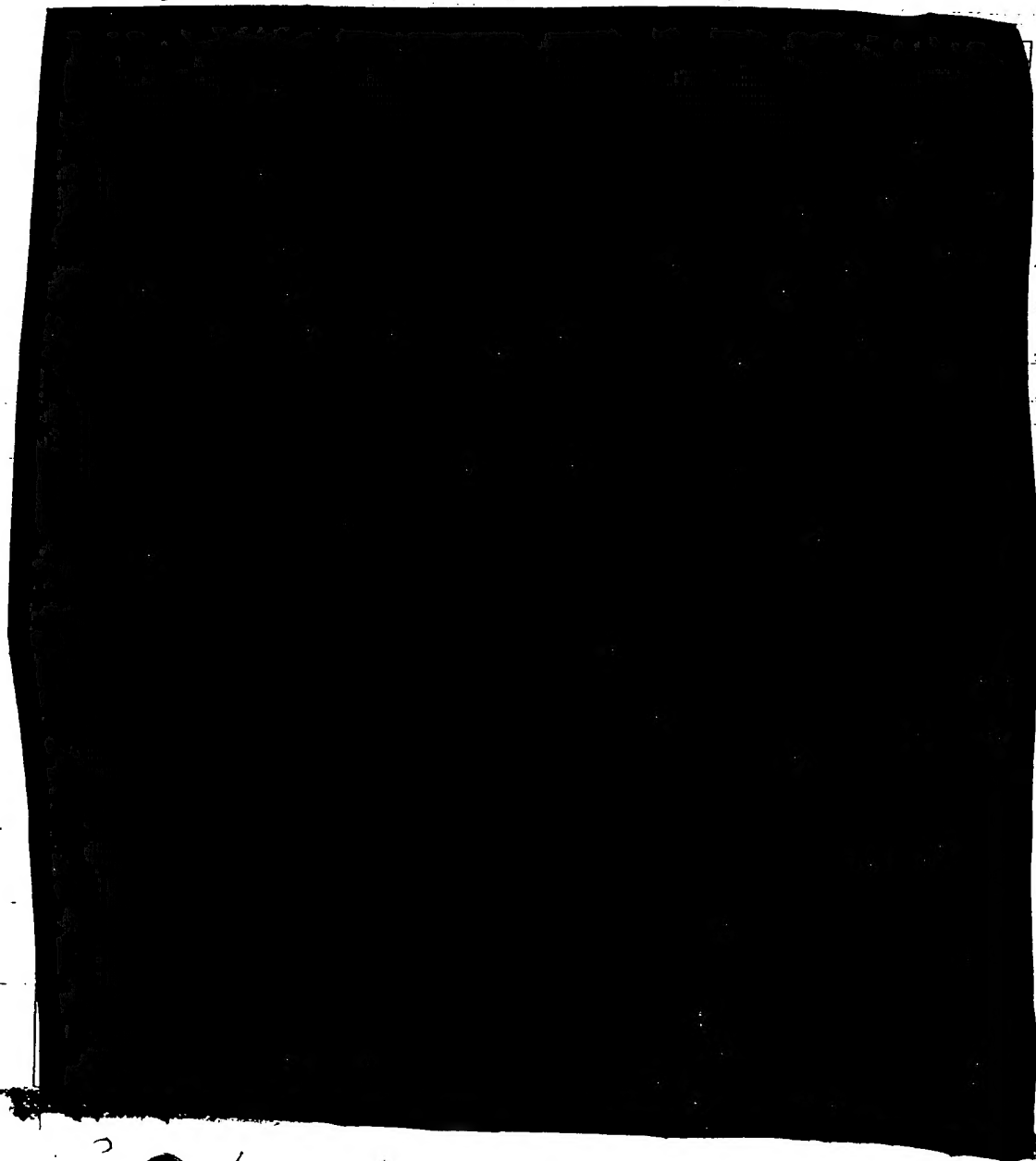
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LEBANON:

Talks on Syrian Move Nearing Conclusion

Talks between Syria and Iran on the fighting in Beirut may be concluding, with Hizballah apparently prepared to allow Syrian forces into the southern suburbs.

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[REDACTED]

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Sporadic fighting in the suburbs is in its second week and is becoming a war of attrition, as pockets of Amal forces struggle to hang on. Amal leader Nabih Barri is reorganizing Amal's military command as a result of recent defeats. He fired his military chief, Aqil Hamiyah, this week, according to press reports, accusing him of duplicity. Barri has publicly pledged to dissolve Amal's military apparatus in West Beirut if Syrian troops secure the southern suburbs.

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[REDACTED] Khamenei [REDACTED] He has been saying publicly that he has no objection to the Syrian deployment as long as neither side is favored and probably calculates that Hizballah can coexist with a limited Syrian presence in the suburbs much as it has in the Bekaa Valley for years. Nonetheless, the cooperation of the street fighters will be difficult to ensure.

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Barri's replacement of Hamiyah highlights the fragmentation that has plagued the pro-Syrian Shia militia for several years. This problem and Amal's inability to reverse Hizballah's recent gains may presage its decline to a regional rather than a national player. (S-NF)

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~~Top Secret~~

21 May 1988

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USSR:

Ligachev Transfer Rumored

A USSR Supreme Soviet session set for Tuesday and a party Central Committee plenum—possibly on Monday—will provide occasions when General Secretary Gorbachev could move against "Second Secretary" Ligachev; rumors of Ligachev's transfer to the presidency have reappeared, but it is still uncertain whether leadership changes will be made. b3

The Politburo announced Thursday that a plenum will be held—date unspecified—to discuss the outline of the report to be delivered at the All-Union Party Conference next month. As with any plenum, the agenda may also include changes in the Politburo and Secretariat. b1 b3

b1 b3 [REDACTED] Ligachev's critics have even begun to attack him publicly. In an interview published in the West, a former chief editor of the Moscow city party newspaper accused Ligachev of using his control of the party apparatus to drive Gorbachev ally Boris Yel'tsin from his Moscow party post. b3

b3 [REDACTED] Gorbachev already has neutralized Ligachev's influence to a considerable degree by cutting back on his Secretariat duties. b1 b3

[REDACTED] Sooner or later, however, Gorbachev will have to take the more forceful step of removing Ligachev from the Secretariat in order to be seen as fully in charge of his own executive apparatus. b3

Gorbachev might prefer not to deal with the Ligachev problem during preparations for the US-Soviet summit, but domestic politics gives him a strong motive for doing so anyway. Removing Ligachev from the Secretariat before the June conference would give Gorbachev a big advantage in pushing through his reforms by sending a strong signal that opposition to *perestroika* will not be tolerated. Gorbachev might then find it unnecessary to seek Ligachev's immediate removal from the Politburo as well. b1 b3

[REDACTED] Leonid Brezhnev did this to his de facto deputy Nikolay Podgornyy in 1965, and Gorbachev wrested control of foreign policy from Gromyko in a similar maneuver in 1985. b3

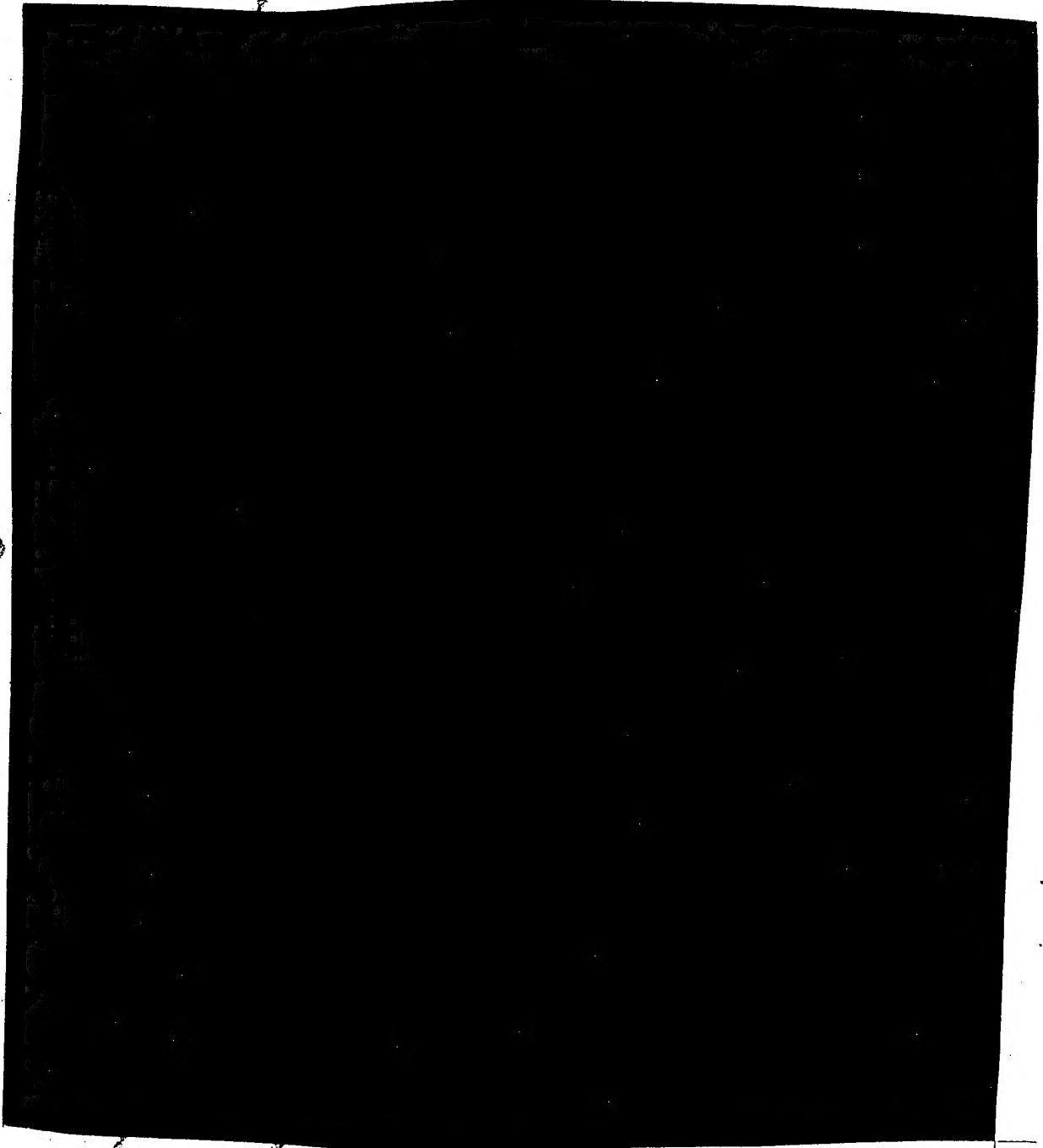
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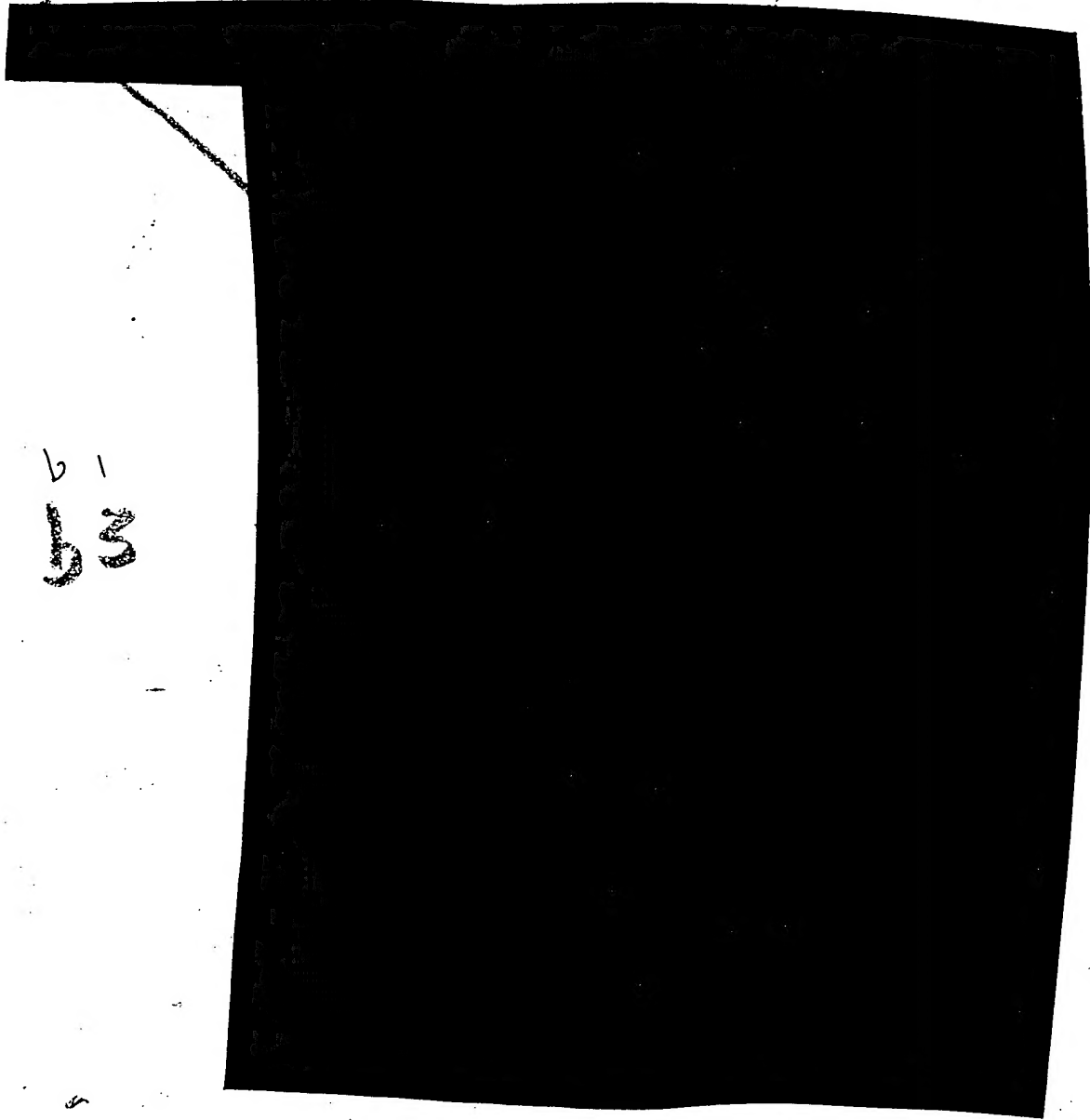
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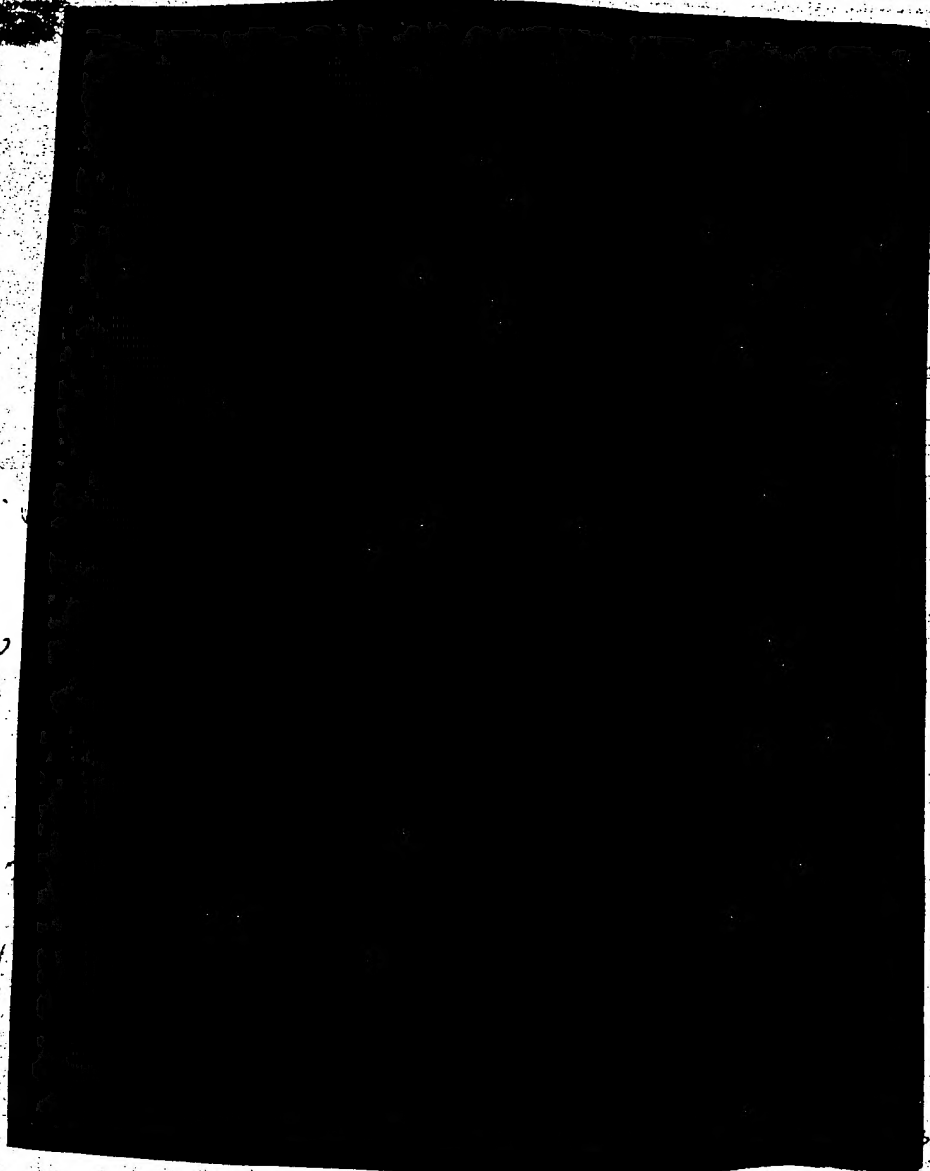
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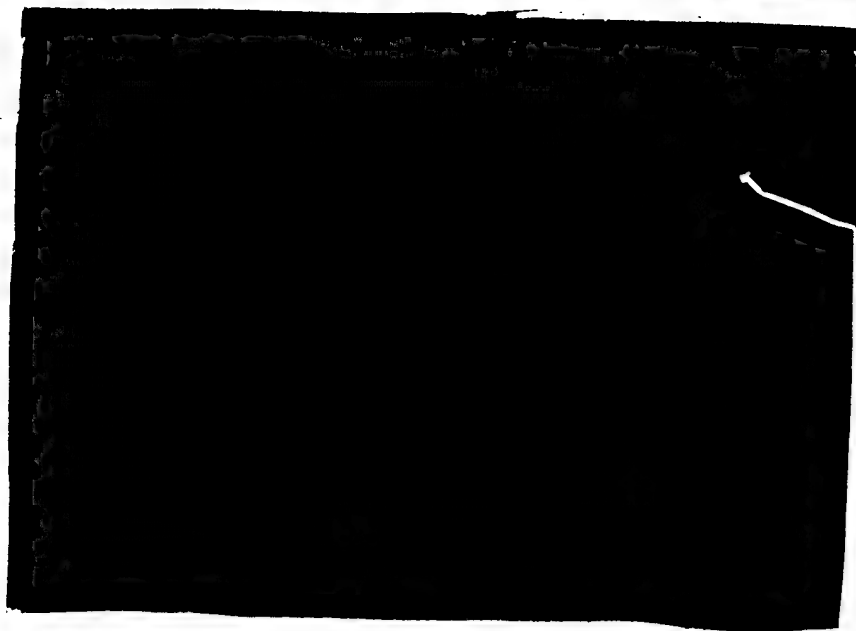
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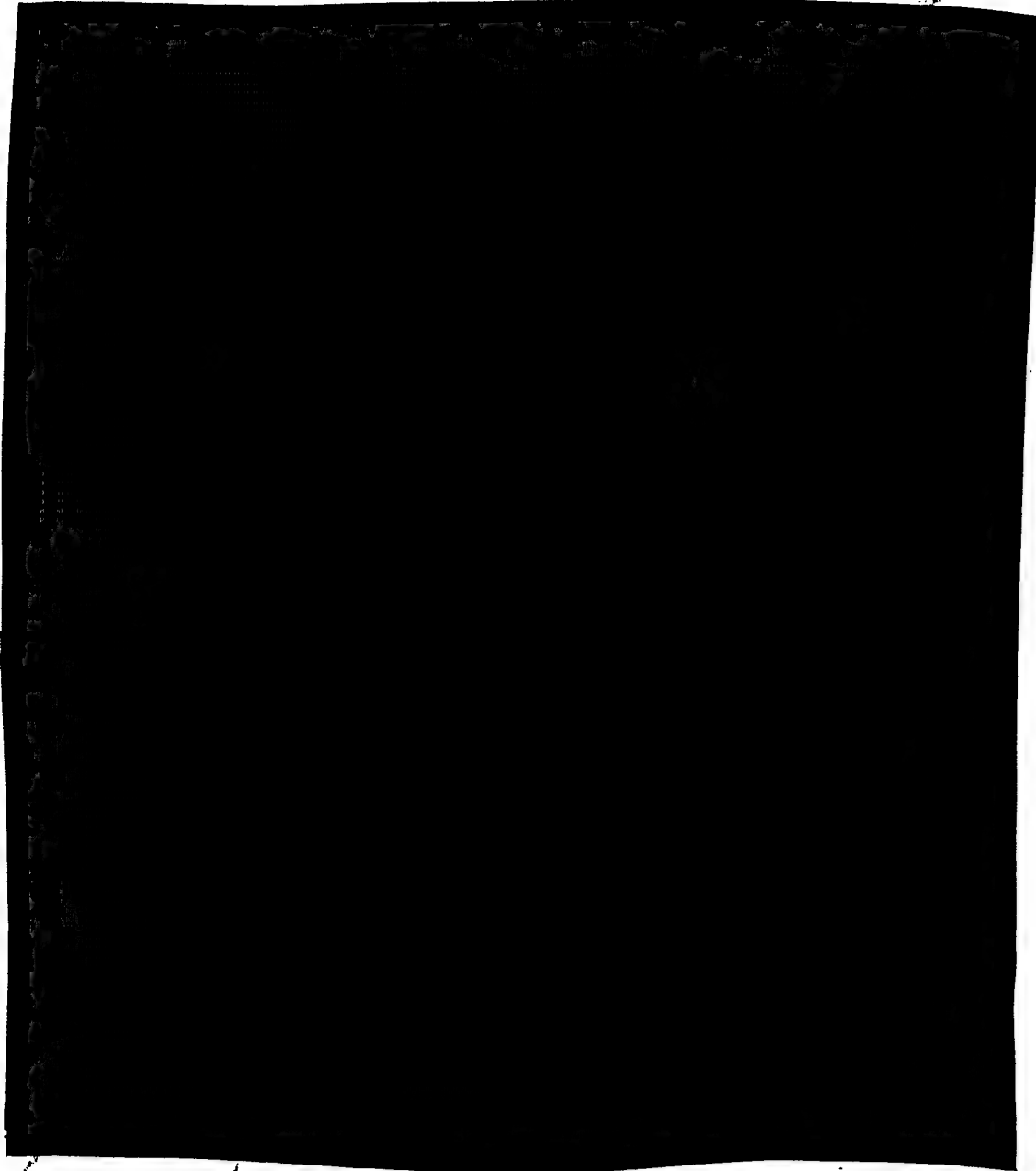
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AFRICA: OAU Summit

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b3 The Organization of African Unity will celebrate its 25th anniversary at its annual summit in Addis Ababa beginning Wednesday. Fewer than half of the group's 50 members will be represented by heads of state. Participants are likely to focus on the long-delayed OAU committee report on the territorial dispute between Chad and Libya over the Aozou Strip.

b3 [REDACTED]
[REDACTED] The OAU is likely to delay grappling with a formal resolution by urging that the cease-fire be maintained while it studies the issue further. Another OAU failure to deal decisively with the dispute, however, might prompt Chadian President Habre to break the cease-fire. He has maintained a large force near the Aozou Strip. Meanwhile, Ethiopian insurgents—bolstered by recent major military gains—are holding a congress in rebel-occupied territory and may announce a political initiative during the summit to attract OAU attention to their demands and to embarrass Addis Ababa. [REDACTED] b3

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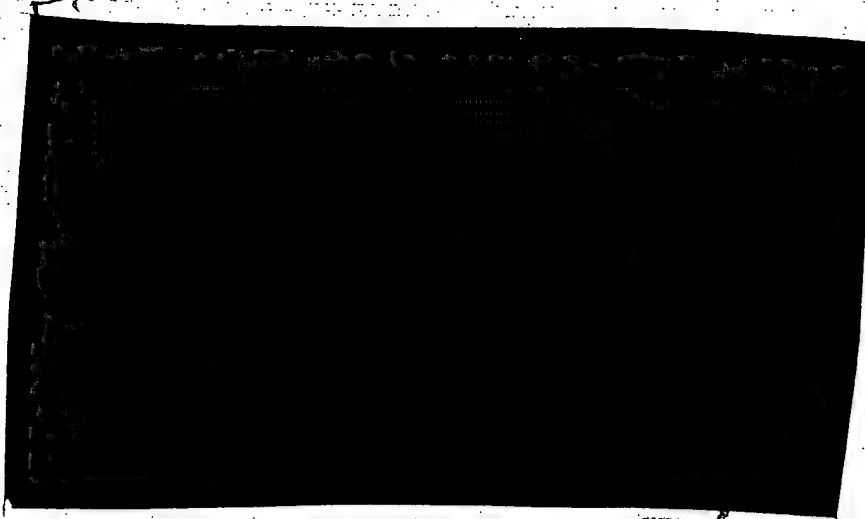
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SRI LANKA: Ruling Party Under Attack From Far Left

Sinhalese extremists yesterday assassinated the Secretary General of the ruling United National Party, Nandalal Fernando, in their campaign to discredit the government, foil provincial elections, and derail the Indian-Sri Lankan peace accord. The militant Janatha Vimukthi Peramuna also killed one UNP candidate and failed in an attempt on another this week. Last December, the JVP killed the UNP party chairman in a similar attack. [REDACTED] b3

b3 [REDACTED] Fernando was not a significant political figure; the repeated attacks on UNP politicians, however, are undoubtedly meant to warn major political figures, including President Jayewardene, of the JVP's ability and willingness to intensify its attacks. Despite the killings, the government is not likely to cancel provincial elections scheduled early next month in the southern provinces. Fear of assassination, however, may seriously reduce the roster of candidates. [REDACTED] b3



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21 May 1988

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In Brief

East Asia

- [REDACTED] b1 b3
- [REDACTED] b1 b3
- Violent protest by Taiwan farmers yesterday over low farm prices, lack of government support . . . follows series of nonviolent protests against agricultural imports . . . labor assertiveness growing, authorities reluctant to meet worker demands. [REDACTED] b3

USSR

- [REDACTED] b1 b3
- Valeriy Legasov, member USSR's commission for investigation of Chernobyl' disaster, committed suicide, *Pravda* reports . . . article unusually candid, quotes Legasov's notes indicating despondency over continuing safety problems in nuclear power program. [REDACTED] b3
- [REDACTED] b1 b3

Europe

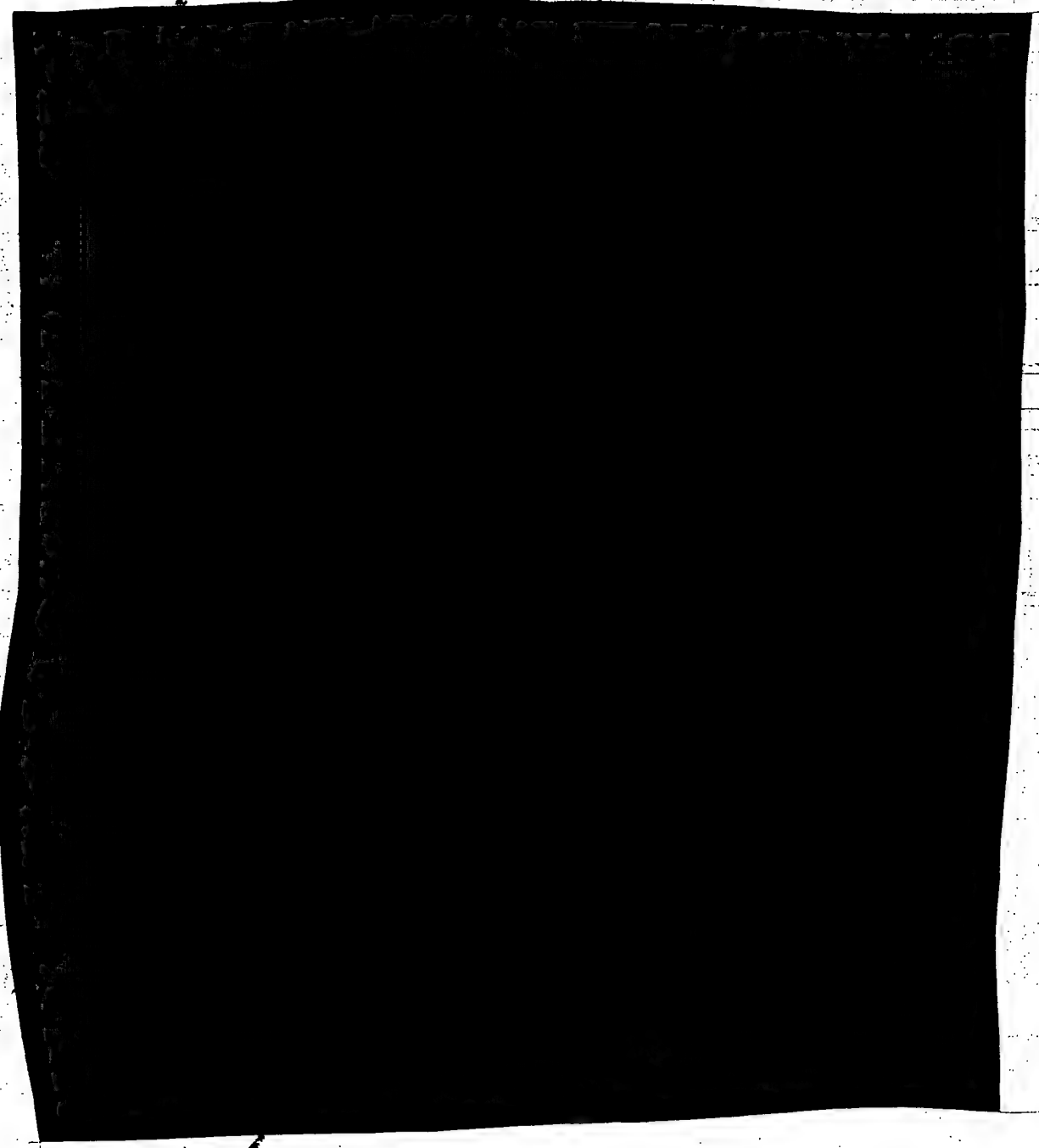
- [REDACTED] b(1)
- IMF has approved \$365 million standby loan for Hungary . . . will strengthen creditor confidence, help Budapest get needed commercial loans . . . will seek more IMF assistance next year because of rising debt service, poor trade prospects. [REDACTED] b3
 - Swedish economic aid to Nicaragua up 33 percent, to \$64 million over next two years . . . amounts to more than one-third of all West European bilateral aid this year . . . includes repairing antiquated electricity plants. [REDACTED] b3

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21 May 1988

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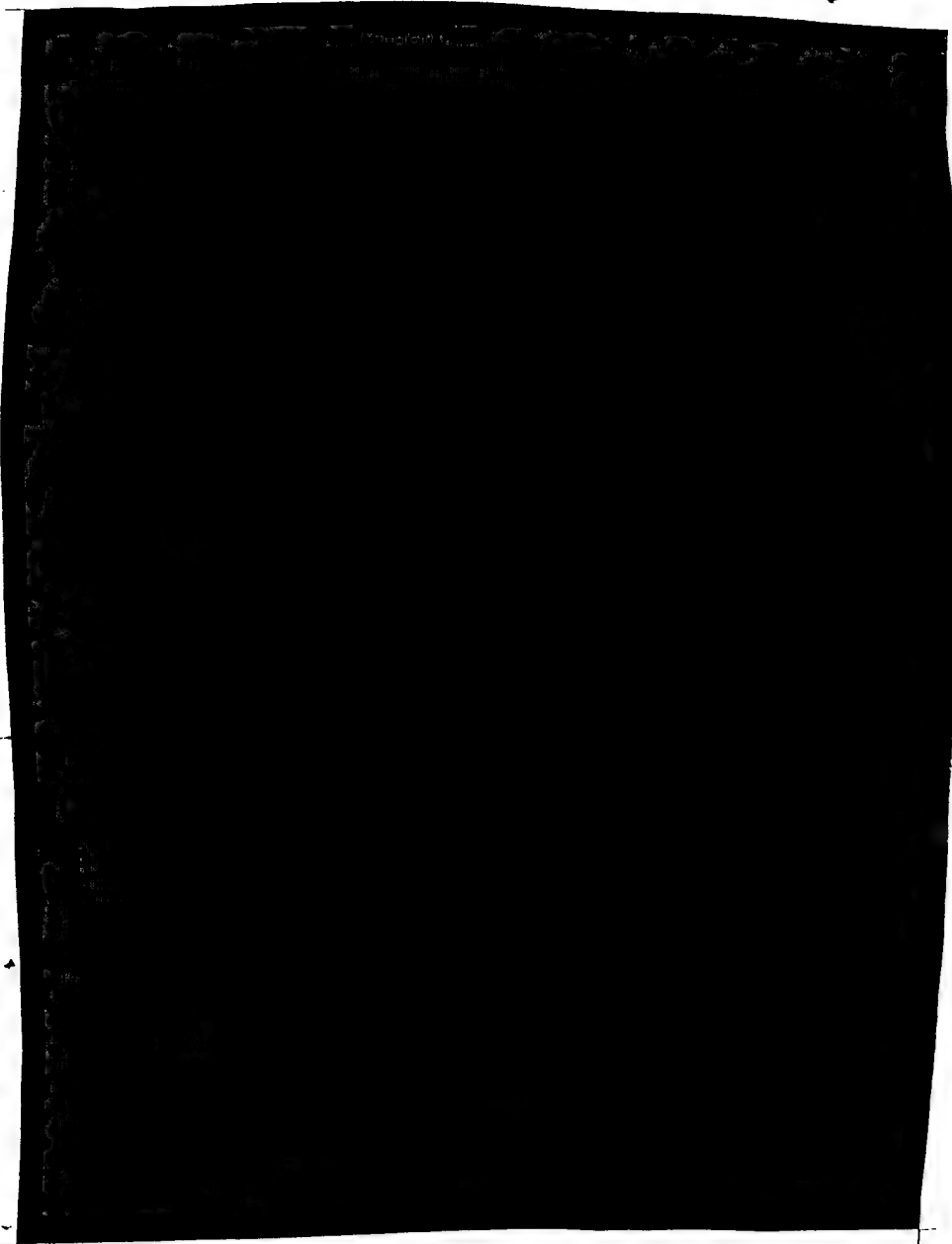
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Poland: Selected Economic Indicators Index 1975 = 100
(except where noted)

	1980	1984	1985	1986	1987
Total GNP	103.5	105.6	106.7	109.7	107.0
Industry	102.9	96.0	97.5	98.4	100.4
Agriculture	95.1	114.0	114.4	121.0	107.0
Retail prices	138.7	473.8	545.4	641.9	800.9
Nominal personal incomes	159.6	454.1	508.1	620.9	751.3
Average real monthly wage	109.7	103.6	107.3	110.0	105.6
Debt (billion US \$)	24.8	26.8	29.3	33.5	39.2

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21 May 1988

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Special Analysis

POLAND:

Economic Effects of Strikes

The recent wave of strikes has seriously set back Warsaw's already shaky reform program and will sharpen the country's economic problems. Inflation is certain to accelerate this year, industrial output may fall, and the trade surplus is likely to shrink, dimming prospects for assistance from the IMF and foreign creditors. b3

The regime's decision to buy off most striking workers with large pay hikes has dealt a severe blow to reform efforts to link pay to productivity and plant finances. The regime hopes nonetheless to hold to the line taken during the strike—that increased wage payments must be funded from factory revenues and not from state subsidies. On 11 May the legislature, in a bid to enforce financial discipline and control inflation, gave the Council of Ministers "special powers" over industrial enterprises. These powers include the right to reduce excessive wage and price hikes, order cuts in spending and the labor force, dismiss factory managers, merge enterprises, and even declare enterprises bankrupt and close them. b3

Enforcement of these directives is likely to be weak; however, as Warsaw tries to avoid further unrest, the central ministries subverted similar disciplinary measures after martial law was declared in 1981. The purpose of the new special powers is to enforce reform, but they appear to give back to the Council of Ministers some of the authority it lost in the restructuring of the government last fall. As enterprises run into financial trouble in coping with reforms, the Council of Ministers, instead of forcing factories to make their own decisions, may decide to reassert its influence at the local level by providing subsidies and tightening administrative controls. b3

Production Suffers, Inflation Increasing

The strikes will accelerate Poland's upward wage-price spiral. Set off by consumer price hikes in February that averaged 40 percent, inflation grew as many Polish factories avoided unrest by granting large wage increases—even before the recent strikes. In the first quarter of this year, according to Polish statistics, these earlier pay concessions, combined with authorized pay hikes of about 20 percent, pushed wages up 45 percent—as compared with a 42-percent increase in prices. Pay increases as high as 65 percent received by strikers in some plants will almost certainly induce workers in other enterprises to seek higher wages in the months ahead through slowdowns and sporadic work stoppages. b3

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21 May 1988

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The Polish media, in an attempt to undercut popular sympathy for the strikers, seem to have overstated—by a wide margin—the immediate impact of the strikes on the economy, especially in terms of lost production of consumer goods. The steel complex at Nowa Huta accounts for 40 percent of Poland's steel production, but most of its customers apparently were able to draw on stockpiles and maintain operations. The impact on industrial performance may still become serious, however. Recent reporting [REDACTED] b1 b3 indicates that absenteeism at Nowa Huta remains at 20 to 25 percent, and, even with workers brought from Silesia, output is down 50 percent:

- If Nowa Huta cannot restore normal production by midsummer, industrial output in 1988—up 7.6 percent in the first quarter from a poor 1987 performance—might grow even slower than last year's 2-percent rate or decline. [REDACTED] b3

Still Greater Need for Western Help

Warsaw now faces greater problems than ever in managing its debt. Plans to increase imports of consumer goods will reduce the few funds available for debt servicing. More imports and reduced exports—as potential exchange earners are diverted to the consumer goods markets—are likely to push Poland's trade balance below the \$1.2 billion surplus last year. The result may be missed payments on its rescheduling agreements and new requests for debt relief from Western governments and banks. [REDACTED] b3

The damage to Warsaw's reform program also has jeopardized prospects for obtaining assistance from the IMF and foreign creditors. Warsaw will argue that it needs help now more than ever, but the IMF will see little potential for a rigorous reform program. The West will have to decide whether to provide assistance and if so whether with few strings attached or with demands for political and economic liberalization. [REDACTED] b3

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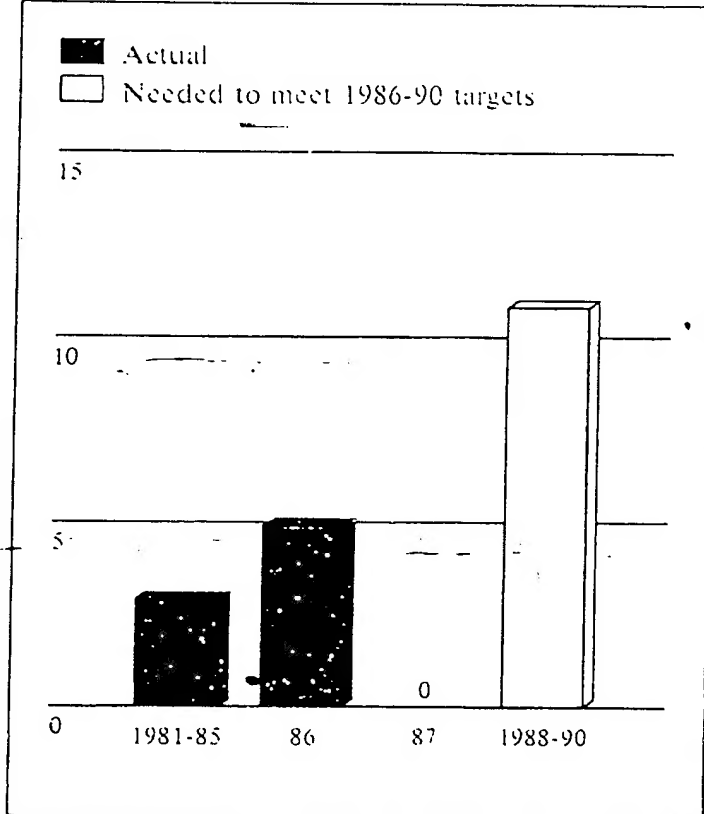
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USSR: Estimated Growth in Civil Machinery Production, 1981-90

Average annual percent growth



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Special Analysis

USSR:

Machine Building, Perestroika's Sputtering Engine

After two and a half years at the center of General Secretary Gorbachev's drive to revitalize the economy, the sweeping program to modernize the critical machine-building sector is still far behind schedule. To overcome this slow start, Gorbachev must marshal a leadership consensus that will support his civil modernization program well into the next decade. Even if he prevails, the modernization program—as currently implemented—is unlikely to transform machine building into the self-regulated engine of technological advance and industrial growth the economy needs. b3

The program for restructuring the machine-building sector—producer of investment machinery, consumer durables, and military hardware—has been impressive in its range and intensity. Since January 1986, it has addressed the most pressing issues at each level of the sector, introducing administrative measures to spur greater production, better quality, faster product turnover, and more frequent and regular plant modernization. It has also included reforms to provide initiative at lower levels that would make such measures routine. b3

Performance Lags, Frustration Builds

The most significant effect of the program, however, has been to threaten the sector's stability. The administrative demands call on enterprises to meet tough—often countervailing—performance targets all at once. The decentralized reforms are generally introduced into the sector piecemeal, leaving machine builders responsible for operating under new rules for new masters without the help of a supporting infrastructure. b3

Despite a respectable showing in 1986, overall performance so far has not only failed to meet leadership expectations but in some areas has been only marginally better than historically low levels. Civil machinery production did not increase at all in 1987; product quality is better but still well below leadership expectations. New equipment improves only slightly on the technical level of existing models, and new designs have been slow to appear. Retooling has been plagued by inadequate equipment supplies and difficulties installing and operating new machines. b3

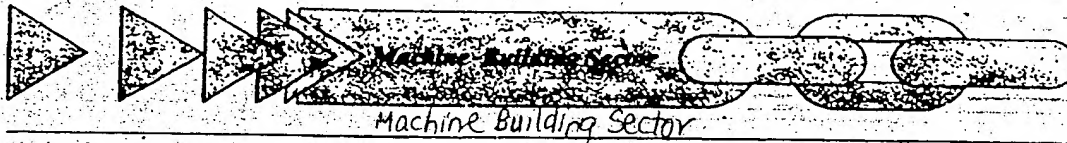
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23 May 1988

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Modernizing Civil Machine Building: The Initial Push and the Long-Term Pull



Action To "Kick-Start" the Sector	Desired Effect	Longer Term Actions To "Overhaul" the Sector
Impose strict management accountability, tough labor discipline, and stringent targets for resource saving.	Raise plant-level concern for the economic cost of poor management and waste.	Decentralize responsibility for plan preparation to the enterprise. Authorize plants to keep more profits.
Impose a tough quality control program administered by an outside authority.	Encourage workers to produce high-quality goods.	Give customers a choice of machine-building suppliers. Link profits and wages to sales.
Mandate aggressive targets for the introduction of new design into production.	Orient managers and workers away from "production for production's sake" and toward the variation of product lines and the satisfaction of consumer demand. Encourage innovation in the workplace.	Introduce limited competition for suppliers and for product designs on major projects. Reduce departmental barriers between research and production.
Demand massive writeoffs of old capital and the rapid introduction of new capital.	Stimulate more efficient use of production potential and growth in productivity. Reward the creative application and exploitation of technology.	Decentralize profit distribution. Authorize plants to set prices for products.

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27 May 1988

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The leadership apparently was surprised by the extent of the program's negative effect and when performance did not recover as expected became impatient and highly critical of the sector. One senior machine-building official complained early this year that he and his colleagues were, "to put it bluntly, being skinned alive." Tasked with unattainable goals and besieged by high-level criticism, machine builders began to display a sense of desperation.

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Pursuing Civil Modernization Into the 1990s

Gorbachev—in apparent recognition of the potentially volatile situation in the civil sector—has begun leaning on the defense industry for the production of consumer and capital goods and, to a lesser extent, on Eastern Europe to offset shortfalls. He has been more conciliatory in the implementation of some reforms and has uncharacteristically praised the sector for some success. At the same time he has stuck publicly to his reform schedule and exacting performance targets to avoid giving opponents of reform any opening that might foster resistance to *perestroika* across the board.

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Despite the poor record, Gorbachev must persuade his ruling colleagues to stay the course into the 13th Five-Year Plan (1991-95). In debate within the leadership that will almost certainly affect his political future, the party chief will probably argue strongly for continuing the high-investment, high-growth strategy through at least the first few years of the period to permit adequate renewal of the sector's capital stock. To avert serious challenges, he has sought to appease consumer interests by expanding the defense industry's role in civil production, and he appears to have already curbed the defense lobby, largely by replacing defense officials with personnel supportive of his policies.

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Over the long haul, Gorbachev must move to abolish major parts of central planning and price setting if civil machine building is to improve routinely its production equipment and produce advanced, high-quality goods. Without such reforms, his program will achieve only modest improvement in the quality and technological level of manufactured goods and an incomplete, one-time modernization of the sector's production capital.

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21 May 1988

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